

FIAS CONSULTATIVE COMMITTEE OF DONORS MEETING

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Mid-cycle Update on the Implementation of FIAS' FY08-11 Strategy

November 2009

1. Summary

This brief update note takes stock of the implementation of the first two years of the FIAS strategy (FY08-FY09) and provides an outlook for the remaining two years of the current FIAS strategy cycle. The key assessment is that the FIAS program is well on track to deliver the goals and objectives set out in the strategy, endorsed by donors, the WBG board and other stakeholders in 2007, even exceeding expectations in some areas. Most notably, FIAS has delivered a remarkable number of investment climate results and reforms, despite a very difficult external environment provoked by the global economic crisis. The crisis led to shifting demands from clients and increased pressure to deliver services efficiently. Over the past year, the FIAS program was able to respond flexibly by introducing a new product (insolvency), readjusting or scaling up other products (Doing Business Reform Advisory, Business Taxation, Trade Logistics, and Investment Policy and Promotion in the area of investor aftercare), and increasing the focus on delivering the best results for the clients in the most cost-effective manner. This was made possible by the sustained support of FIAS's donors and partners.

2. Clients and overall objectives

The main goal for the strategy period was to significantly increase impact through growth, greater focus and drive for results. The target for FY08-11 was to *contribute to about 400 significant business environment reforms — half in “frontier countries” or “frontier regions of non-frontier countries”*.¹ At mid-course, the FIAS program has already reached over 80% of the four year goal since it contributed to 108 results in FY08 and 224 results in FY09 (for a total of 332 results)². This is an extraordinary achievement which was made possible by the introduction of a profound results culture and adequate monitoring and evaluation tools to track results at the project and product level. All staff working on FIAS funded projects articulate results frameworks jointly with their clients which make explicit the results to be achieved. This is a significant change from the prior strategy cycle during which the main indicators for FIAS' performance were numbers of projects completed and recommendations implemented. Recognizing the improved quality of the M&E framework and system that FIAS spearheaded over the past two years, IFC is now adopting it and rolling it out across all regions for the Investment Climate Business Line.

¹ FIAS Strategy FY08-11; see: [http://www.fias.net/ifcext/fias.nsf/AttachmentsByTitle/FIASStrategyPaper07/\\$FILE/FIAS_strategy_paper_for+web.pdf](http://www.fias.net/ifcext/fias.nsf/AttachmentsByTitle/FIASStrategyPaper07/$FILE/FIAS_strategy_paper_for+web.pdf).

² In FY09, FIAS decided to change the terminology from “reform” to “result”. Indeed, many of the results that FIAS supports go beyond reforms. The intent for the rest of the strategy period is to fine-tune the results measurement system so as to be able to distinguish between and report on various types of reforms and other results.

The strategy had anticipated that half of total project expenditures would be in frontier/IDA countries.³ Both in FY08 and FY09, project expenditures reached 53% in IDA countries. In addition to that, expenditures in frontier regions of non-IDA countries were 1% and 2%, respectively. This concentration of resources translated into strong results in low income countries with 65 of 108 results achieved in IDA countries (59%) in FY08, and 136 of 224 results in IDA countries (61%) in FY09, above the threshold of 50% anticipated in the strategy. During this strategy cycle, the FIAS program also sharpened its focus on fragile states and conflict-affected countries as evidenced by the fact that half of FIAS's largest programs were in such countries (for instance in Liberia and Sierra Leone).

An additional goal set out in the FY08-11 strategy was to contribute to about 200 reforms as documented in the *Doing Business* reports. So far, 55% of this goal has been achieved since FIAS contributed to 51 reforms in FY08 and 57 reforms in FY09.

The quality of FIAS' work continues to be appreciated by its clients. FIAS exceeded its strategic goal to maintain more than 85 percent client satisfaction, reaching 92% in FY08 and 89% in FY09.⁴

3. Products

The FY08-11 strategy refocused FIAS' activities on two key practice areas, i.e., Regulatory Simplification and Investment Generation, and stressed the need to build world-class expertise around the product portfolio. FIAS started the strategy cycle with seven products and extended the offering to a total of 14 products by introducing or formalizing a few new products and unbundling some of the products (see list in Annex A). The products which were added are Doing Business Reform Advisory and Subnational Doing Business in FY08, the Insolvency product in FY09 in response to the crisis, and Business Entry (already an IFC product) in FY09. Special Economic Zones (SEZ) was unbundled from the Industry-specific product. Access to Land was added in FY08 but it is currently being phased out despite encouraging early results; FIAS management concluded that FIAS did not have the needed critical mass and that others in the WBG and beyond are better positioned to take the lead in this area.

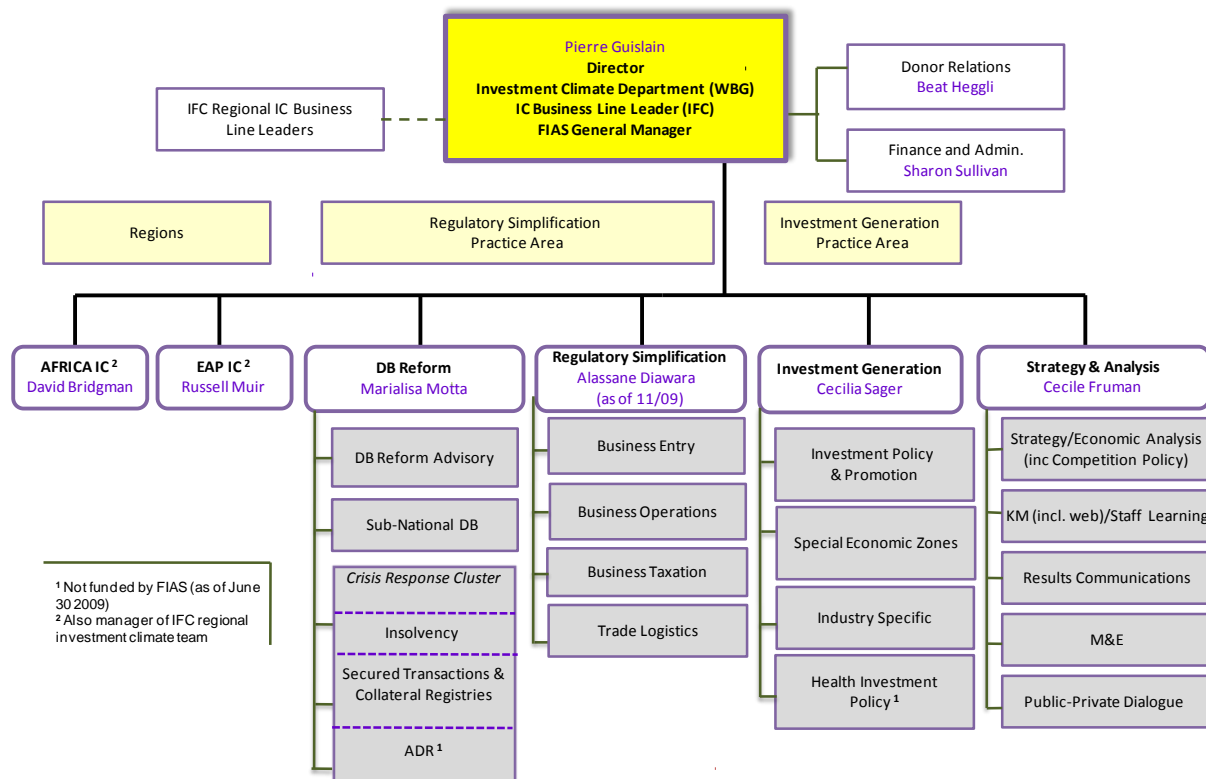
Two IFC products which in the past have not been formally part of the FIAS program – Alternative Dispute Resolution (ADR) and Public Private Dialogue (PPD) will be subsumed under FIAS in FY10, given the synergies with other products and to better align the scope of the FIAS program with the scope of the WBG Investment Climate Department (CIC) which houses FIAS, and with IFC's Investment Climate Business Line. The Health Investment Policy unit – which is a part of the WB-IFC Health in Africa initiative and also housed in CIC – will remain outside the scope of the FIAS program. CIC/FIAS Staff has been organized along these products areas, as shown in the organizational chart below.

³ In FY08, IFC moved from tracking projects in "frontier countries" to using the more broadly accepted definition of countries eligible for credits from the International Development Association, commonly referred to as "IDA countries" (countries with gross national income per capita of less than \$1,095).

⁴ Investment Climate business line data is used as a proxy for FIAS client satisfaction; separate FIAS data is not available. FIAS funded projects account for 41 percent of IFC's Investment Climate business line.

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WBG Investment Climate Department



4. Knowledge management and benchmarking

During the past two years, FIAS sharpened its focus in these two areas. In knowledge management, the focus was on producing and disseminating high quality outputs of high relevance for clients and staff, moving away from voluminous publications to sharper notes and practical toolkits and handbooks. At the same time, FIAS retained its position as a significant thought leader in the field of investment climate reform, both within the World Bank Group and externally. Another area of focus was on fostering peer-to-peer learning among staff and clients via several regional initiatives. Fully aware of the power of benchmarking to foster reform, FIAS continued to make great strides in this area. FY09 saw the launch of the second edition of *Global Investment Promotion Benchmarking*, an annual flagship report that surveys the performance of national and subnational investment promotion intermediaries (IPIs) in 181 countries. Twelve *Subnational Doing Business* reports were produced in FY08 and FY09, showing how government regulations and their implementation ease or constrain business activity in a number of selected locations within a country or (sub-)region. Under the Subnational DB work, over 200 cities were benchmarked with regard to their investment environment since 2005.

Significant progress was made in initiating *Investing Across Borders* (IAB), a new program designed to benchmark the quality of regulations and the efficiency of administrative processes for foreign direct investment (FDI). Through the IAB project, FIAS seeks to stimulate and inform investment climate reforms in client countries. The first IAB report is expected to be published in spring 2010.

5. Organization

FIAS's organization was aligned with the new business model during the strategy period (see organizational chart above). In FY09, a new Strategy and Analysis unit was created to support all the core functions of strategy, economic analysis, monitoring and evaluation, knowledge management, communications and learning. This unit is also responsible for incubating and rolling out new or cross-cutting topics such as gender, climate change, or competition.

FIAS has retained its edge as a partnership and funding vehicle for the design and implementation of both innovative and tested reform solutions. Increasingly, it plays the role of a knowledge incubator and center of expertise for investment climate projects implemented throughout the world. This collaborative model of program support has allowed the investment climate team to better integrate the efforts of Washington-based staff members, who have global experience and expertise in investment climate reform, with the more intimate country knowledge and reform experience of country-based teams. Following this strategic goal, FIAS has established a strong presence in regional hubs in Nairobi and Johannesburg, serving clients in Sub-Saharan Africa. Under an expanded partnership with the Austrian Ministry of Finance, the Vienna hub allows for greater direct support to clients in Europe and Central Asia, based on client demand and the potential for successful engagement.

With the aim to be closer to its clients, FIAS launched a decentralization effort for this strategy cycle; 29% of FIAS staff were field-based at the end of FY09. While this is slightly below the 32% target for FY09, decentralization efforts are ongoing and it is expected that the ratio of field-based staff will further increase in FY10 and 11.

FIAS has also come very close to the goal of having staff spend 75% of their time on project implementation, and 75% of total spend on project-related expenses. Actual numbers were 74% for both indicators for FY09.

Finally, during the period under review, a concerted effort has also been made to improve financial management systems to increase accountability and responsiveness to clients and partners. These efforts will continue throughout FY10 and beyond in the context of IFC's Business Process Improvement initiative (BPI).

6. Delivery models

During the past two years, FIAS strove to be more selective in its projects, work with strongly committed partners, and establish a sustainable business model. To advance these goals, FIAS (in line with the IC Business Line) introduced a new pricing mechanism, asking middle-income clients to contribute in a significant way to the cost of FIAS activities, based on their income. Client contributions in FY09 – although still modest in absolute terms – were about four times higher than the average of previous years, and are expected to further increase in the coming years. Client-supported work included municipal simplification in the Republic of Tatarstan (in the Russian Federation), subnational efforts to make it easier to do business in Colombia, a major investment generation programs in Brazil and DB reform advisory work in Abu Dhabi.

FIAS has been successful in moving away from stand-alone diagnostics to focus on projects that support implementation of reforms in client countries, with explicit expectations in terms of results. More than a dozen multi-year country projects have been launched and they have proven successful to help clients achieve significant and sustainable reforms over time. At the same time, FIAS' quick-response capacity has also been expanded, notably through the Doing Business Reform Advisory team. The approach implemented via DB Reform Advisory allows FIAS to interact quickly, effectively and in a systematic way with governments who request assistance centered on the DB agenda. Experience has shown that such rapid "first response" interventions often create the basis for a longer-term, more sustainable engagement with a client country.

7. Funding

Resource deployment followed FIAS' strategic goals and exceeded them in FY09. Expenditures in FY07, the last year of the previous strategy cycle, totaled \$22 million (including expenses for MIGA's Technical Assistance program which was fully incorporated in FIAS as of July 1, 2007). In the first year of the strategic cycle (FY08), FIAS expenses reached \$28 million due to high demand and donor-supported growth. In the second year, growth slowed down due to the global financial crisis and FIAS' drive to adapt its core business in light of a changing environment. Expenses reached \$33 million in FY09 which meant a deceleration in growth from an average annual growth rate of around 24% throughout the FY05-07 strategy cycle and in FY08, to about 19% growth in FY09.

Taking into account the challenging financial environment in which FIAS currently operates (including increased uncertainties about internal and external funding), the FIAS Supervisory Committee approved an FY10 budget range of \$34-37 million (with the upper ceiling subject to client demand and donor funding). The lower end of the range would mean a flat budget in real terms, and the need to cut down in some products or activities to make space for higher priority ones. Assuming no growth in FY11 budget, FIAS would deliver a \$130 million work program over the entire strategy cycle, against a goal of \$112 million indicated in the FY08-11 strategy.

The delivery of this program is only possible thanks to a large number of internal and external partners and donors. FIAS was able to mobilize approximately \$70 million of donor, client and WBG-internal funding during the first two years of the strategy cycle. For the remaining two years, FIAS currently expects to raise another \$55-65 million, based on current funding projections. \$40 million out of the projected funding for FY10 and 11 are currently secured. Against that background, several important programs as well as key elements of FIAS' crisis response require additional donor commitments to be fully implemented. A continuing concern is also the tight supply of core funding, given the fact that donors are increasingly earmarking funds for program- and project specific purposes. It remains one of FIAS' top priorities to mobilize an additional \$6-8 million of core funding, as well as \$10-15 million in program- and project-specific funding, to be in a position to maintain current budget- and activity levels. Over the coming year, FIAS will also start preparing for the next operational cycle which is expected to run from FY12-16.

8. Alignment with partners

FIAS developed new partnerships, while sustaining old ones, with bilateral donor partners from around the world. Partnerships continued to reflect FIAS' strategic goals. For example, in Sub-Saharan Africa, FIAS worked closely with IFC's Conflict Affected States in Africa Initiative

(CASA), funded by Ireland, the Netherlands, and Norway. The United Kingdom's Department for International Development (DFID) is a key contributor to several ongoing and new projects in Sub-Saharan Africa. The Dutch Government is a strongly supporting FIAS' work in IDA countries. In FY09, FIAS also received extraordinary funding allocations from Austria and Luxembourg to support FIAS's response to the global financial crisis, with an emphasis on its Insolvency and Doing Business Reform products. Close co-operation at the program and project level is also ongoing with SECO, the Netherlands, Sweden, and Norway. Overall, the number of FIAS donors increased from 11 in FY07 to 15 in FY09.

Throughout FY08 and FY09, FIAS maintained an ongoing dialogue on substance with many donor partners, and has benefited from several incoming staff exchanges/secondments sponsored by partner agencies. FIAS remains committed to involving donor partners in the substance of its work, thus fostering relationships that help leverage knowledge and expertise available among partners.

9. Going Forward

FIAS' strategic priorities for the remaining two years of the FY08–11 operational cycle remain in line with the overarching priorities outlined in the 2007 strategy document: the focus on IDA as well as conflict affected countries, the emphasis on decentralization and closer collaboration with clients as well as a tighter integration within the World Bank Group, and a focus on facilitating results that matter to the private sector, to be tracked and monitored via a stronger and more robust system of M&E and results measurement.

Beyond these ongoing strategic priorities, FIAS will continue to explore how its advisory services can be more directly linked with actual investment activities undertaken by private sector companies, as well as with the broader and more in-depths policy reform agenda that the World Bank, in particular via its Financial and Private Sector Development Vice Presidency, is pursuing. Sector-specific investment climate reform activities, currently supported by FIAS in the agribusiness and tourism sectors, could play a particularly important role in this area. Finally, FIAS will continue to explore innovative ways to assist countries in emerging cross-cutting priority areas, such as climate change, food security, competition policy or e-government; FIAS looks forward to active engagement with and contribution from its donors and partners in exploring these new or emerging areas.

Annex A:

List of FIAS-supported products (as of November 2009):

a) under Regulatory Simplification Practice Area (including DB Reform unit)

1. Business Entry
2. Business Operations (formerly Business Licensing and Regulatory Governance)
3. Business Taxation (formerly Global Tax Simplification)
4. Trade Logistics
5. Doing Business Reform Advisory
6. Sub-national Doing Business
7. Secured Transactions and Collateral Registries
8. Insolvency (new product)
9. Alternate Dispute Resolution (existing IFC product, new under FIAS)

b) under Investment Generation Practice Area:

10. Investment Policy and Promotion
11. Industry-specific IC Reform
12. Special Economic Zones (new product; formerly part of Industry-specific IC Reform)
13. Access to Land (product under exit)

c) under Strategy and Analysis Unit:

14. Public-Private Dialogue (new product)